



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
PIKE COUNTY SHERIFF**

Calendar Year 2000

**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE PIKE COUNTY SHERIFF

Calendar Year 2000

The Auditor of Public Accounts has completed the Pike County Sheriff's audit for calendar year 2000. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The 75% fund account balance increased by \$221,528 from the prior calendar year, resulting in a cash surplus of \$51,625 as of December 31, 2000. Revenues increased by \$448,468 from the prior year and disbursements increased by \$57,037.

The 25% fund account balance revenues increased by \$23,487 from the prior year and disbursements increased by \$141,651. The fund balance is \$118,164 as of December 31, 2001.

Report Comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Sheriff Should Prepare Financial Status Reports For The Department For Local Government
- The Sheriff Should Prepare Monthly Bank Reconciliations
- The Sheriff Should Collect Salary Overpayments From An Employee
- The Sheriff Should Deposit Net Receipts For The Return Of Fugitives Into The Fee Account

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Karen F. Gibson, Pike County Judge/Executive
Honorable Charles E. Keesee, Pike County Sheriff
Members of the Pike County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts and disbursements of the County Sheriff of Pike County, Kentucky, and the statement of receipts, disbursements, and fund balances of the County Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2000. These financial statements are the responsibility of the County Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff prepares the financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the receipts and disbursements of the County Sheriff and the receipts, disbursements, and fund balances of the County Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2000, in conformity with the basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Karen F. Gibson, Pike County Judge/Executive
Honorable Charles E. Keesee, Pike County Sheriff
Members of the Pike County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated January 23, 2002, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following areas of noncompliance:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Sheriff Should Prepare Financial Status Reports For The Department For Local Government
- The Sheriff Should Prepare Monthly Bank Reconciliations
- The Sheriff Should Collect Salary Overpayments From An Employee
- The Sheriff Should Deposit Net Receipts For The Return Of Fugitives Into The Fee Account

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
January 23, 2002

PIKE COUNTY
CHARLES E. KEESEE, SHERIFF
STATEMENT OF RECEIPTS AND DISBURSEMENTS

Calendar Year 2000

Receipts

Federal Payments

US Army Corps Of Engineers	\$ 35,428	
Community Oriented Policing Services	<u>42,944</u>	\$ 78,372

State Fees For Services

Finance and Administration Cabinet	\$ 108,678	
Reimbursement for Return of Fugitives	21,091	
KLEFPF Grant	<u>68,210</u>	197,979

Circuit Court Clerk

Security Fees	\$ 17,386	
Arrest Fees	<u>1,133</u>	18,519

Fiscal Court

Sheriff's Supplement		377,500
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County Clerk

Delinquent Land Sales		38,813
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Commission on Taxes

689,283

Fees Collected for Services:

Auto Inspections	\$ 12,475	
Accident and Police Reports	191	
Serving Papers	43,960	
Executions	1,195	
Carrying Concealed Deadly Weapon Permits	24,135	
Transporting Prisoners and Patients	5,988	
Insurance Reimbursement	950	
DARE Contributions	1,250	
Security Reimbursement	120,309	
Fuel Tax Reimbursement	6,383	
Sheriff's Advertising Fees	1,310	
Fees for Collecting Delinquent Taxes	60,527	
Interest Earned	14,968	
Miscellaneous	<u>12,008</u>	<u>305,649</u>

Gross Receipts

\$ 1,706,115

PIKE COUNTY
 CHARLES E. KEESEE, SHERIFF
 STATEMENT OF RECEIPTS AND DISBURSEMENTS
 Calendar Year 2000
 (Continued)

Disbursements

Other Disbursements:

Executions	\$	1,195
Jury Meals		666
Carrying Concealed Deadly Weapon Permits		16,455
Travel Reimbursement		<u>12,723</u>

Total Allowable Disbursements		\$	<u>31,039</u>
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Net Receipts		\$	1,675,076
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Payments to State Treasurer:

75% Operating Fund	\$	1,435,504	*
25% County Fund		<u>215,713</u>	<u>1,651,217</u>

Balance Due at Completion of Audit		\$	<u><u>23,859</u></u>
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*Includes reimbursed expenses in the amount of \$ 788,364 for the audit period. See Note 1 of Notes to the Financial Statements.

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
CHARLES E. KEESEE, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES OF THE
SHERIFF'S OPERATING FUND AND COUNTY FUND WITH THE STATE TREASURER

Calendar Year 2000

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2000	\$ (169,903)	\$ 118,164	\$ (51,739)
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	1,435,504		1,435,504
Fees Paid to State - County Funds (25%)		215,713	215,713
Total Funds Available	<u>\$ 1,265,601</u>	<u>\$ 333,877</u>	<u>\$ 1,599,478</u>
<u>Disbursements</u>			
Pike County Fiscal Court	\$	\$ 215,713	\$ 215,713
Personal Services-			
Officials Statutory Maximum	76,250		76,250
Incentive Pay	688		688
Deputies' Salaries	708,240		708,240
Employee Benefits-			
Social Security	56,717		56,717
Retirement	55,677		55,677
Health Insurance	116,630		116,630
Operating Expenses	171,594		171,594
Capital Outlay-			
Office Equipment	4,800		4,800
Vehicles	23,380		23,380
Total Disbursements	<u>\$ 1,213,976</u>	<u>\$ 215,713</u>	<u>\$ 1,429,689</u>
Fund Balance - December 31, 2000	<u>\$ 51,625</u>	<u>\$ 118,164</u>	<u>\$ 169,789</u>

The accompanying notes are an integral part of the financial statements

PIKE COUNTY
CHARLES E. KEESEE, SHERIFF
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2000

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and periodically paid to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

B. Basis of Accounting

The financial statements have been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2000.

The Attorney General issued a letter which stated that some receipts of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are receipted in the 75 percent fund.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

PIKE COUNTY
 CHARLES E. KEESEE, SHERIFF
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2000
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.28 percent for the first six months and 7.17 percent for the last six months of the calendar year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement System's annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 13, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$1,768,339 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county as of December 13, 2000.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county's name	\$ 6,761,750
FDIC Insurance	100,000
Uncollateralized and uninsured	<u>1,768,339</u>
Total	<u><u>\$ 8,630,089</u></u>

Note 4. Health Insurance Premiums

PIKE COUNTY
CHARLES E. KEESEE, SHERIFF
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2000
(Continued)

KRS 61.405 allows county fee officials to purchase twelve (12) months of health insurance coverage for their employees, if excess fees are available. Therefore, the expenditures are allowable. The Attorney General has issued opinion 92-108, which claims the statute is unconstitutional and discriminatory. The Attorney General also issued OAG 94-11 on February 25, 1994, stating health or medical insurance provided uniquely for an official and not in connection with a government program providing benefits to all county employees would be personal in nature.

Note 5. Forfeiture Fund

The Pike County Sheriff maintains an official bank account for monies obtained from seizure and sale of property used in illegal drug activities. The purpose of this fund is to purchase necessary equipment for operating the Sheriff's office. The balance of drug forfeiture fund as of December 31, 2000, was \$10,291.

Note 6. Carrying Concealed Deadly Weapon Permit

The Pike County Sheriff maintains an official bank account for receipts collected for Carrying Concealed Deadly Weapon Permits. The purpose of this fund is to distribute the appropriate fees to the Kentucky State Treasurer and the Sheriff's fee account for applications received. The balance as of December 31, 2000, was \$1,548.

Note 7. Community Oriented Policing Services Grant

During calendar year 1998, the Sheriff was awarded a grant in the amount of \$44,875 to hire additional law enforcement deputies. During calendar year 2000, the sheriff received and disbursed \$42,944 leaving an ending balance of \$0 as of December 31, 2000.

COMMENTS AND RECOMMENDATIONS

PIKE COUNTY
CHARLES E. KEESEE, SHERIFF
COMMENTS AND RECOMMENDATIONS

Calendar Year 2000

NONCOMPLIANCES

1. The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
-

On December 13, 2000, \$1,768,339 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

None.

2. The Sheriff Should Prepare Financial Status Reports For The Department For Local Government
-

The Sheriff did not prepare financial status reports for submission to the Department for Local Government during Calendar Year 2000. As allowed by the Uniform System of Accounts mandated by KRS 68.210, the Department For Local Government requires quarterly and annual financial status reports from fee officials. This financial status report is a compilation of financial data that is prepared from the Sheriff's books of accounts. We recommend the sheriff comply with KRS 68.210 and submit quarterly and annual financial status reports to The Department for Local Government.

Sheriff's Response:

None.

3. The Sheriff Should Prepare Monthly Bank Reconciliations

The Sheriff did not prepare monthly bank reconciliations in calendar year 2000. The Uniform System of Accounts mandated by KRS 68.210 requires the Sheriff to prepare monthly bank reconciliations. We recommend the Sheriff follow the uniform system of accounts and prepare monthly bank reconciliations for all bank accounts.

Sheriff's Response:

None.

PIKE COUNTY
CHARLES KEESEE, SHERIFF
COMMENTS AND RECOMMENDATIONS
Calendar Year 2000

4. The Sheriff Should Collect Salary Overpayments From An Employee

A part-time employee of the Sheriff's office was paid \$7,852 for hours he did not work. The employee cashed payroll checks even though he did not work any hours and had not submitted timesheets for the pay periods. We recommend the sheriff review the payroll register for accuracy before distributing payroll checks to the employees. Also, we recommend the sheriff collect \$7,852 from the part-time deputy.

Subsequent to the audit date, the employee reimbursed the Pike County Sheriff \$3,500 for salary overpayments.

Sheriff's Response:

None.

5. The Sheriff Should Deposit Net Receipts For The Return Of Fugitives Into The Fee Account

The Sheriff maintains a separate bank account for reimbursement from the state for the return of fugitives. After the Sheriff receives state reimbursement, deputies are reimbursed from the account for necessary expenses incurred while returning the fugitive. Any remaining amounts are then divided between the deputies who returned the fugitives. KRS 440.380 states "If, in attempting to reclaim the fugitive, the agent is acting within the course and scope of his employment, the amount due shall be paid over to the agent's employer instead of the agent." Therefore, all receipts should have been deposited to the sheriff's fee account. The deputies are entitled to reimbursement for actual expenses but are not entitled to any remaining amounts. As a result of the sheriff's procedures, the deputies have been overpaid a total of \$7,971. We recommend the Sheriff comply with KRS 440.380 by depositing receipts from state reimbursement into the fee account. Furthermore, we recommend the sheriff collect overpayments from the deputies.

Sheriff's Response:

None.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the Pike County Sheriff for the year ended December 31, 2000, and have issued our report thereon dated January 23, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Pike County Sheriff's financial statements for the year ended December 31, 2000, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Sheriff Should Prepare Financial Status Reports For The Department For Local Government
- The Sheriff Should Prepare Monthly Bank Reconciliations
- The Sheriff Should Collect Salary Overpayments From An Employee
- The Sheriff Should Deposit Net Receipts For The Return Of Fugitives Into The Fee Account

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pike County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
January 23, 2002

